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PROGRAM OF REFORM IN THE AGRICULTURAL MARKETING SECTOR, PHASE I (PRAMS I)

Program of Research on Market Transitions (PROMT)

THE ANALYSIS OF MARKET TRANSITIONS: THE EXPERIENCE OF POLICY REFORM IN CAMEROON

Decentralization: Finance and Management Project
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FOREWORD

This report is one of a series of studies produced by the Program of Research on Market Transitions (PROMT), the research arm of USAID/Cameroon's Program for Reform of the Agricultural Marketing Sector, Phase I (PRAMS I). PROMT is one of many research programs conducted by the Decentralization: Finance and Management (DFM) project, sponsored by the Agency for International Development's Research and Development Bureau (AID/R&D). Like other DFM projects, PROMT draws on an Institutional Analysis and Design (IAD) framework to study the processes of institutional change associated with deliberate reform efforts in the developing world. DFM is managed by Associates in Rural Development, Inc. (ARD) of Burlington, Vermont. Under subcontract arrangements ARD collaborates with the Workshop in Political Theory and Policy Analysis at Indiana University and the Metropolitan Studies Program at Syracuse University.

PROMT was created to monitor and analyze the processes of market liberalization and privatization associated with various donor-assisted, policy reform programs in Cameroon, including but not limited to PRAMS I. Concerned with problems of both design and implementation, the research was focused, in particular, on two issues: (1) the relationship of sectoral reforms to cross-cutting reforms and constraints, and (2) alternative modalities for assisting the reform process as used by three donors--AID, the World Bank, and the Commission of the European Community (CEC). PROMT also examined other emerging difficulties with policy reform and further developed the IAD framework as a diagnostic tool for use in the policy reform process.

PRAMS I focused exclusively on reform and restructuring in Cameroon's arabica coffee sector. Arabica coffee is one of the country's leading agricultural exports, which also include robusta coffee, cocoa, and cotton. PRAMS I was preceded by the Fertilizer Sub-Sector Reform Program (FSSRP), USAID/Cameroon's first initiative into market-creating policy reform, and a companion program sponsored by the CEC, the *Programme Spécial d'Importation d'Engrais* (PSIE). These sectoral reform efforts occurred in the context of a comprehensive Structural Adjustment Program (SAP) supported by the World Bank. This set of reform activities provided the range of experience studied by PROMT researchers.

The theoretical base for PROMT research was both institutionalist and interdisciplinary, provided by the IAD framework in political science and the New Institutional Economics. The "new institutionalism" as used in PROMT was based on two key ideas:

- Goods and services exhibit differences, often subtle, that require different institutional arrangements for their effective provision, production, exchange, and use. Included are shades of difference among the great variety of private goods considered appropriate for market provision.

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- Alternative institutional arrangements create very different incentives for individuals' behaviors, greatly affecting their capacity or incapacity to interact with one another in productive ways. Included among alternative institutional arrangements are alternatives within the private sector--various types of markets and industries.

This theoretical orientation leads to a pair of research hypotheses:

- The problems encountered in liberalization and privatization vary with the characteristics of the goods and services involved in emerging market relationships. Normatively, the design and implementation of policy reform programs should reflect the differences among economic goods.

- The success of policy reform depends on the institutional arrangements available for translating intentions into actions and outcomes. Normatively, the design and implementation of policy reform programs should reflect the differences among political institutions.

Methodologically, PROMT examined and compared different cases of policy reform, using programs undertaken by different donors in a single country. The period under study was roughly 1988 to early 1994. During this period the international economic situation affecting Cameroon deteriorated sharply, including a sagging world price for coffee. Toward the end of the period Cameroon's currency (along with the other Franc zone countries in West Africa) was devalued, a step long recommended by the World Bank. Also during this period Cameroon pursued political reforms, legalizing opposition parties and increasing the diversity of political expression, yet maintaining the dominance of the president and his party. Otherwise, the research design held constant the general institutional context, while varying, among the cases studied, both the goods and services involved and the design and implementation of policy reforms and accompanying programs of assistance.

The design of PRAMS I produced two major program components:

- A policy reform component that established a series of conditions precedent to the disbursement of funds, most of which were intended to liberalize the policy environment surrounding the marketing of arabica coffee, allowing for market-based pricing, private export, and competition among traders.

- A cooperative restructuring component focused on the North West Cooperative Association, a federation of 11 cooperative unions and initially 40 (now 73) cooperative marketing societies located in the North West Province.

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Arabica coffee is also grown in West Province, where marketing is organized through a union of six marketing cooperatives. A collateral reform effort, one closely coordinated with a number of other donors, led to the adoption and dissemination of a new national cooperative law, affecting all cooperative organizations and similar groups in Cameroon.

The Cameroonian experience with policy reform in general and PRAMS I in particular is especially interesting due to two factors:

- The distinguishing characteristic of arabica coffee as a "hidden value" commodity and the challenge presented by this attribute to the conceptualization of an appropriate privatization program. The value of a commodity is hidden to the extent that its quality cannot be easily ascertained or measured at the point of initial purchase. This suggests the possibility that market institutions should be modified by introducing elements of nonmarket or collective decision-making. These considerations coincided, in the case of PRAMS I, with a privatization program focused largely on marketing cooperatives, not private entrepreneurs.

- The innovative approach to policy reform pursued by USAID/Cameroon during this period. Rather than introducing a policy change (e.g., a change in a regulation or the adoption of an official policy statement) and monitoring outcomes, USAID/Cameroon pursued a course of following each reform through the series of steps that lead from the initial intervention to intended (or unintended) outcomes. Instead of focusing only on the two end-points of the reform path, this approach, as used in both PRAMS I and the earlier FSSRP, involved monitoring performance along the entire path. Such close monitoring led to unforeseen donor interventions in the reform process. Monitoring the entire path of reform can also suggest ways to model the reform process. Models of policy reform, conspicuously lacking in the design of policy reform programs by major donors, could lead to better choices of initial policy interventions and better monitoring of performance.

The PROMT research effort has resulted in the following reports:

- *Institutionalism and Policy Reform.* A background paper on the IAD framework applied to policy-reform problems.

- *Organizational Approaches to Policy Reform.* A background paper on the models followed by USAID, the World Bank, and the CEC.

- *Crafting a Market: A Case Study of USAID's Fertilizer Sub-Sector Reform Program.* A case study of the Fertilizer Sub-Sector Reform Program.

- *Pitfalls of Privatization: A Case Study of the European Community's Programme Spécial d'Importation d'Engrais.* A case study of the CEC's Special Fertilizer Input Program (known by French acronym, PSIE).

- *Paths of Policy Reform.* Case studies of PRAMS I and Cooperative Law reforms.

- *Restructuring NWCA.* A case study of the cooperative restructuring component of PRAMS I in the North West Province.

- *Implementation of the World Bank's First SAL in Cameroon: A Case Study of Public Enterprise Reforms and Industrial and Commercial Sector Reforms.* A case study of selected components of the SAP in Cameroon.

- *Crosscutting Constraints and Policy Reform.* A set of four background papers dealing with investment, labor, commercial, and contract law in Cameroon.

- *The Analysis of Market Transitions.* The final report.

Copies of the reports are available from ARD, Burlington, Vermont.

Ronald J. Oakerson
PROMT Research Director

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ACKNOWLEDGMENTS

The PROMT team was composed as follows:

- Daniel Green, Full-time Research Associate, a political scientist posted in Yaounde, Cameroon

- Paul D. Wessen, Full-time Research Associate, an agricultural economist posted in Bamenda, Cameroon

- Donald Hinman, Part-time Research Associate, an agricultural economist located at Michigan State University

- S. Tjip Walker, Part-time Research Associate, a political scientist located at the Workshop in Political Theory and Policy Analysis, Indiana University

- Louis Siegel, DFM Senior Program Manager, ARD Burlington

- Barbara Messner, DFM Assistant Project Manager, ARD Burlington

- Ronald J. Oakerson, Research Director (part-time), Professor of Political Science, Houghton College

Green and Wessen were posted in Cameroon for one year, from early 1993 to early 1994. Green had principal field responsibility for the case studies dealing with PRAMS I policy reforms and the cooperative law reform, while Wessen studied the restructuring of NWCA. Hinman wrote the background paper on "Organizational Approaches to Policy Reform" and conducted the field study of public enterprise reform within the scope of Cameroon's SAP.

Walker was responsible for the case studies of FSSRP and PSIE and assisted with project coordination. Oakerson wrote the background paper on the IAD framework and the final research report, edited the full set of reports, supervised the research team, and gave general direction to the research program. Over the past few years he has spent a total of some nine months in Cameroon.

In addition, ARD subcontracted with the Private Sector Research Institution (PRISERI) of Cameroon to prepare four background studies of cross-cutting legal constraints.

The team has a long list of people to whom we are deeply indebted for assistance. At USAID/Cameroon, two "generations" of personnel contributed to the research program. Robert Shoemaker, former Project Design and Evaluation Officer, Tham Truong, former Chief of the Office of Economic Analysis and Policy Reform Implementation (EAPRI), and

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Jay Johnson, former Mission Director, were responsible for the original proposal as part of PRAMS I.

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ACRONYMS

AMIS	Arabica Market Information System
CCCE	*Caisse Française de Coopération Economique*
COOP/MUT	Department of Cooperation and Mutuality
COOPARGO	Small group of private arabica plantations
CEC	Commission of the European Community
FSSRP	Fertilizer Sub-Sector Reform Program
GRC	Government of the Republic of Cameroon
GTZ	German Technical Assistance Agency
NWCA	North West Cooperative Association
NPMB	National Produce Marketing Board
ONCC	Office National du Cacao et du Café (National Office for Cocoa and Coffee)
PROMT	Program of Research on Market Transitions
PSIE	Fertilizer Sub-sector Reform Program
SAP	Structural Adjustment Program
SODECOTON	*Société de Développement de Coton*
UCCAO	*Union Centrale des Coopératives Agricoles de l'Ouest* (Central Agricultural Cooperative Union of the West Province)

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EXECUTIVE SUMMARY

This report draws on the body of research conducted by the Program of Research on Market Transitions (PROMT) to provide an overview of the Cameroonian experience with policy reform, in particular the Program for Reform of the Agricultural Marketing Sector, Phase I (PRAMS I), and to review its implications for Cameroon and other less developed countries in Africa. Although PROMT field research was conducted between March 1993 and March 1994, it studied a period that began with the 1988-89 marketing season. In addition to PRAMS I, which included both a policy-reform component and a cooperative restructuring component, PROMT examined Cameroon's experience with two fertilizer reform programs, its Structural Adjustment Program (with particular focus on public enterprise reform), the reform of the national legislation governing cooperatives, and various other crosscutting legal reforms and constraints.

One of the principal points of interest in PROMT was the role of sectoral reform in the process of economic liberalization and privatization. Both PRAMS I and the two fertilizer reform programs were sectoral reforms, concerned with the vertical relationship between stages of production for a "commodity slice" of the national economy. PRAMS I focused exclusively on arabica coffee, an agricultural commodity characterized by "hidden" value, that is, value that is difficult to discern and measure at the point of initial purchase from primary producers. Some form of vertical integration, such as cooperatives or contract farming, can be considered appropriate for hidden-value commodities. PRAMS I included a cooperative restructuring component intended to assist a group of cooperatives organized as the North West Cooperative Association (NWCA) in adjusting to a liberal market environment. The restructuring component was designed to introduce market-like relationships into a 3-tier cooperative structure. The design and implementation of this quasi-market arrangement was driven by the nature of the commodity--arabica coffee--and the need to create incentives that matched its particular marketing requirements and would operate for the benefit of farmers. By the conclusion of PRAMS I, the institutional design for the reform of NWCA were fully implemented, and the various marketing cooperatives comprising NWCA were offering producers separately determined prices based on their unique costs.

Sectoral reforms such as PRAMS I and crosscutting reforms that affect multiple sectors (or the entire economy) are important complements in the process of economic liberalization and privatization. PROMT's studies of crosscutting legal reforms in the areas of investment, commerce, and labor suggest that writing new operational rules is by itself unlikely to generate an immediate economic payoff. The reform of the nations cooperative law, however, is working in tandem with arabica market liberalization to allow cooperative restructuring, which is driven in many cases by competitive pressure, with an immediate payoff for arabica producers. Cooperative law reform, unlike changes in the commercial code for example, was accompanied by a change in the underlying authority structure responsible for applying and enforcing the operational rules that pertain to the organization of cooperatives.

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The process of policy reform, unlike the economic process that reform is intended to establish, has never been well modeled. PROMT studied the paths of reform in five distinct reform programs in order to learn more about the nature of the process involved in reform. USAID/Cameroon itself pursued an approach to policy reform that entailed intensive monitoring and oversight of the entire path of reform. The paths of reform that eventually led to full liberalization of arabica coffee marketing began with three different reform efforts: PRAMS I, French assistance in the restructuring of the cocoa and robusta coffee sectors, and cooperative law reform. Obstacles were encountered along the reform paths that required unforeseen decisions and program modifications. The case studies suggest that successful policy reform depends on a process of iterative institutional design in the context of continued interaction among donors and key host-country decision-makers at a policy-making level.

Cameroon's recent experience demonstrates that it is feasible, contrary to the record of policy reform in much of Africa, to introduce market reforms of a very liberal sort in an African context. Although a judgment on the sustainability of these same policy reforms awaits further experience, the success shown to date can have a significant demonstration effect both within and outside the country, strengthened by the accompanying program of research. However, the research also indicates that Cameroon's successes were tied to a demanding and multifaceted approach to policy reform that included the following components: institutional analysis and design on an iterative basis, the complementary design of sectoral and cross-cutting reforms, high levels of donor coordination, the intensive oversight of reform along multiple paths, and high levels of staff support. These are the important but complex lessons that Cameroon brings to the practice of policy reform in the developing world.

I. INTRODUCTION

The Program of Research on Market Transitions (PROMT), the research component of USAID/Cameroon's Program for Reform of the Agricultural Marketing Sector, Phase I (PRAMS I), monitored the processes of market liberalization and privatization associated both with PRAMS I and a set of carefully selected comparison cases. This final report draws on the whole body of PROMT research to provide a brief overview of Cameroon's experience with policy reform and offer an interpretation of its meaning both for Cameroon and other less developed countries.

The research program spanned barely more than one year of work in Cameroon.[1] Two field researchers were posted in Cameroon, one in Yaounde, the capital, and the other in Bamenda, capital of the North West Province and the site of a major PRAMS I cooperative restructuring activity, from March 1993 to March 1994. Two other researchers worked in Cameroon on a total of 3 field trips during the same period. The author of this report, also research director, made four trips to Cameroon during the year.

The period under study began, however, in 1988-89, when the Government of the Republic of Cameroon (GRC) jointly with USAID introduced the Fertilizer Sub-Sector Reform Program (FSSRP), designed to establish a sustainable, competitive market structure for the importation sand distribution of fertilizers, free of subsidy and price controls. Now, in 1994, this program is coming to an end, with its mission substantially accomplished. The FSSRP was the first major venture into policy reform for the purposes of economic liberalization and privatization undertaken both by the GRC and by USAID/Cameroon as a donor. FSSRP was accompanied in northern Cameroon by a parallel program, The Special Fertilizer Input Program, funded by the Commission of the European Community (CEC). Shortly, Cameroon would embark on a comprehensive Structural Adjustment Program (SAP) with the support of the International Bank for Reconstruction and Finance (World Bank). This would roughly coincide with the introduction of PRAMS I, a reform program aimed specifically at the liberalization of marketing within the arabica coffee sector. PRAMS I would also include a major project component to assist the North West Cooperative Association (NWCA), a federation of 11 area cooperative unions and (then) 40 cooperative produce marketing societies located in the anglophone North West Province. An important

[1] The progress of the research effort, like the policy reform process being studied, met with a series of obstacles. Initially, the start of the project was delayed by political turmoil inside the country, not to mention administrative hurdles within the agency. In the end, the impending closure of the AID mission in Cameroon brought the research to a premature conclusion, forcing the cancellation of portions of the program, including a much greater effort in the analysis and synthesis of findings. Field researchers who were intended to spend two years at their posts instead spent only one year, and they had to be withdrawn from the field as the first real impacts of reform were being experienced in mid-marketing season. Just as policy reform is seldom if ever conducted under the most propitious circumstances, research conducted in tandem with policy reform inevitably faces many of the same limiting conditions.

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related reform effort, supported by multiple donors, would lead to the enactment of a new, more liberal, national law on cooperatives.

Also during this period Cameroon would experience a major economic crisis caused by plummeting world prices for its major exports, including coffee, cocoa, cotton, and oil. The crisis paved the way for policy reform in a political sense even as it made the path of reform a rough road to travel in an economic sense. One North West farmer and cooperative official, addressing this situation at an annual review of PRAMS I in December 1991, acknowledged the discouraging news from the world market but at the same time offered the opinion that, in the absence of an economic crisis in coffee exports, he and the other 35,000 coffee growers in the province would still have been "slaves of the marketing board," referring to the now-defunct National Produce Marketing Board (NPMB), which exported arabica coffee in behalf of the NWCA and its affiliates prior to the introduction of PRAMS I. The 'best and worst of times' had once more converged in a time of rapid change. The economic circumstances that open doors to reform are not usually the more propitious circumstances for conducting an economic policy experiment.

Again, during this period, Cameroon would experience major political changes, including the emergence of opposition political parties and the liberalization of political activities. New elections would be conducted for both the National Assembly and the Presidency. While the incumbent President and his party would maintain their dominance, an increasingly vocal and active opposition would also succeed in paralyzing most of the country for long periods through so-called "ghost towns" that effectively brought transportation and commerce to a halt, except when the ghost-town was lifted on weekends. Much of the opposition was centered in the North West Province, slowing the pace of the reform activity planned to occur under PRAMS I.

Toward the end of the period of research, the CFA Franc was devalued, following a long-standing recommendation of the World Bank and others, bringing encouragement to the export market including the arabica sector. Moreover, Cameroon had apparently weathered its political storms and was experiencing a time of relative stability. However, USAID/Cameroon was preparing to close, in line with an AID/Washington policy to concentrate its resources in fewer countries. The closure of the Cameroon mission was not unrelated to the perception of a lack of progress in democratization, in particular, the apparent inability of the GRC to conduct a fair national election for Presidency of the Republic. This report, therefore, happens to coincide with the impending departure of USAID from Cameroon and from the process of policy reform studied by PROMT in USAID's behalf.

The Cameroonian experience with policy reform holds particular interest for both students and practitioners due to two characteristics. The first is an innovative approach pursued by USAID/Cameroon during the period of study. The second, specific to PRAMS I, is the distinguishing attribute of arabica coffee as a hidden-value agricultural commodity, one whose quality cannot be easily ascertained or measured at the point of initial purchase from the primary producer. The innovative approach followed by USAID, which entails close monitoring of the policy-reform process, would permit the intensive study of the full path of reform. The institutional challenge presented by arabica coffee would offer an opportunity to study a privatization program focused largely on the restructuring of marketing cooperatives rather than the introduction of private traders into a simple market.

II. A SECTORAL FOCUS IN REFORM AND ANALYSIS

One of the basic research questions pursued by PROMT was the role and function of sectoral reform in the overall process of economic liberalization and privatization. Sectoral reform is concerned with a specific commodity as opposed to cross-cutting reforms that affect several commodities--and perhaps all commodities--simultaneously. An institutionalist approach suggests the importance of commodity sectors with its emphasis on the nature of goods as a factor affecting the choice of institutional arrangements. If commodities exhibit significant differences that require various institutional infrastructures then various commodity sectors may require significantly different policy treatments in a process of reform.

PRAMS I is a prime example of sectoral reform. Its focus was quite specific--not coffee, but arabica coffee. Excluded was robusta coffee, even though robusta is exported in greater quantity from Cameroon. Arabica can be grown only in a highland region and is demanded for its rich, mild flavor. Unlike robusta, arabica is harvested when the coffee "cherry" is just ripe; it is then pulped, washed, and dried within 48 hours of harvest--in a process that is quite labor-intensive and ordinarily done on the farm. Only then is arabica ready for mechanical hulling and grading. Robusta, by contrast, goes directly from harvesting to processing at the mill. The upshot is that arabica is much more sensitive to handling and processing than robusta. Its quality, while much in demand, can be easily degraded, if the parchment (unhulled coffee) is mishandled.

Coffee is a member of a class of agricultural commodities characterized by "hidden" quality. When coffee is initially purchased from its primary producers, its quality is to a significant extent unknown to the buyer (and perhaps to the seller as well). The quality of coffee can only be discerned after it is roasted and brewed--when it is in the cup. This occurs mostly post-export, several stages of production after coffee has left the farm. Roasters employ sophisticated cup-tasting techniques to measure the quality attributes of the coffee they use in various blends. Because of its inherent characteristics, arabica is more susceptible than robusta to the uncertainties associated with hidden quality.

The economic problem created by hidden-quality commodities is how to satisfy the demand for high quality. Ordinary market relationships are insufficient because of the lack of quality information at the point of initial sale. The buyer is unable to discriminate between commodities of different quality levels and reward higher-quality producers with a higher price. As Bates explains, the market solution for satisfying the demand for quality is to "generate a dispersion of prices" (Bates 1989: 76). But the market solution cannot work when buyers lack the relevant information. Coffee roasters, who have the principal incentive to seek out good quality coffee, find that they have to modify or supplement simple market relationships in the procurement of coffee beans, if they are to satisfy the demand for quality that they confront in their product market.

In general, the solution to this problem depends on some type and degree of vertical integration in the relationship between primary producers and those who organize the subsequent stages of production. Solutions vary with different commodities. Bates (1989: 76-78) discusses differences among coffee, tea, and sugar in Kenya--all of which exhibit hidden qualities. Three basic types of institutional arrangements offer the potential for vertical integration:

- *Parastatal organization*, which draws on the powers of the state to license, regulate, and finance primary producers. In this case, as Bates (1989: 77) notes, bureaucratic controls replace market forces as the regulatory mechanism that rewards and penalizes primary producers. He cites the Kenyan tea industry, regulated by the Kenya Tea Development Authority, as a successful illustration of this mode of organization.

- *Cooperative organization*, in which primary producers form a marketing cooperative to self-regulate the process of production and export their produce.

- *Extended contracting* (contract farming), in which a private entrepreneur enters into long-term contractual relationships with a number of primary producers. Farmers agree to accept contractual stipulations in their farm practices in exchange for a guaranteed market at a minimum price. Contract farming can also be combined with parastatal organization, in which case a public enterprise replaces the private entrepreneur and enjoys a protected monopoly position vis-a-vis farmers.

Parastatal organization displaces market organization, while both marketing cooperatives and extended contracting can develop within a market context. Nevertheless, both cooperatives and contract farming represent a modification of simple market relationships. A simple market is one in which a number of buyers enter into "one-shot" transactions with a number of sellers (see Ostrom, Schroeder, and Wynne 1993: 128-131). No long-term relationships develop between buyers and sellers, and conditions of free entry and exit prevail between each transaction. Simple markets maximize the discretion of both buyer and seller and minimize the market power of any one participant. Both cooperatives and contract farming modify a simple market by developing long-term relationships that constrain entry and exit. The advantage of a simple market is traded off to obtain the advantage of vertical integration.

All three of the major options also have disadvantages. Parastatals suffer from political interference and bureaucratic rent-seeking behaviors. Monopoly positions insulate parastatal enterprises from the discipline of market competition and encourage laxity in management. Many African parastatal firms have failed from precisely these causes. Cooperatives have to overcome obstacles to collective action (Olson 1965) and, to the extent that producers become dependent on the cooperative, must deal with their own problems with rent-seeking. Extended contracting faces high initial transaction costs and the continued costs of contract monitoring and enforcement.

If parastatal organization is excluded as an option, one can anticipate that the demand for quality in relation to arabica coffee would eventually result in the creation of either (or both) marketing cooperatives or contract-farming arrangements. The alternative is a quality discount in the price fetched by a region's arabica coffee on the world market--the situation that obtained in Cameroon on the basis of a failed parastatal arrangement prior to PRAMS I. A privatization program intended to replace such a parastatal arrangement should give consideration to the type of marketing arrangement and the required institutional infrastructure likely to be preferred for a given commodity. This is the situation that confronted USAID/Cameroon and the GRC in the design of PRAMS I.

USAID chose to work with an existing cooperative structure in the North West Province as the most likely candidate for the preferred marketing arrangement in arabica coffee (Gellar, Oakerson, Wynne 1990). Although the North West Cooperative Association (NWCA) had become little more than an agent of the National Produce Marketing Board (NPMB), the cooperative structure had originally been developed, prior to independence, in the context of a simple market dominated by small private traders. In addition to market liberalization, which consisted primarily of getting the GRC and its parastatal out of the coffee business, PRAMS I focused on the design of institutional relationships within the cooperative structure and the provision of technical assistance to help carry out the design. PRAMS I did not take separate steps to encourage the introduction of private entrepreneurs into the arabica coffee sector, apart from general market liberalization.

The lack of support in PRAMS I for a "private sector" outside the cooperative structure has occasioned some criticism. Some observers argue that the program created market distortions by aiding one set of enterprises--the cooperatives--to the exclusion of potential market entrants. In particular, PRAMS I has been criticized for its temporary extension of the buyer's monopoly enjoyed by NWCA in the North West Province, thus protecting the cooperative structure initially from competition. This was done in order to make the time needed to introduce reform measures within the cooperative structure, prevent its bankruptcy (due in large part to government-owed arrears) at the outset, and enable the cooperatives to compete in an open market. Critics argue, however, that market liberalization is inconsistent with the maintenance of a legal monopoly (Cooke, Jolly, LeBlache 1993: 38).

USAID's priority was to preserve the existing cooperative structure, if possible. This strategy was selected because marketing cooperatives were deemed to be appropriate for the particular commodity and because the existing structure represented a substantial investment in social and institutional capital. The transaction costs involved in recreating social and institutional capital, once it is destroyed, can be very high. The absence of effective community institutions is often a serious obstacle to development (Ostrom, Schroeder, Wynne 1993: 190). PRAMS I consistently sought to reduce the social costs of market liberalization.

The technically feasible alternative to the development of marketing cooperatives, provided that the full value of arabica coffee production is to be realized, consists not of simple markets with a large number of private traders but of contract-farming arrangements developed by a small number of private entrepreneurs. The primary defect of these arrangements in a developing-country context is the usual absence of a respected law of contracts and effective contract enforcement. The general weakness of contracting in Cameroon was confirmed by research (see the PROMT report on *Crosscutting Constraints and Policy Reform*). The magnitude of transaction and contract-enforcement costs depends, however, on the immediate social context. A large informal sector in Cameroon, as elsewhere, testifies to the ingenuity of private entrepreneurs in overcoming the limitations imposed by high transaction costs. In a place like the North West Province both transaction and enforcement costs might be overcome by a local "big man," who is able to coerce local farmers into accepting his terms. However, this arrangement would also subject farmers to the dominance of a long-term buyer and severely constrain their marketing discretion.

Around the world, cooperative organization has generally been the preferred form of organization for linking coffee producers to the international market, except in the case of large plantations. Given a large number of smallholders (an estimated 35,000 coffee farmers in the North West Province), it is hardly surprising that a knowledgeable donor would lend its support to a cooperative structure in order to promote the development of an arabica coffee sector. The key question is how the cooperative structure is to be organized. This became a major design issue in the preparation of PRAMS I.

Bates (1989: 76-78) argues the case for vertical integration largely in terms of hierarchical relationships. This is consistent with a dichotomous view of institutional arrangements as markets and hierarchies. Both parastatal organization and contract farming rely mainly on hierarchy to ensure performance on the part of primary producers. The shortcoming of hierarchy is the absence of incentive compatibility in the distribution of discretion between principals (hierarchical superiors) and agents (hierarchical inferiors). Agents have incentives to shirk and, subject to the costs of monitoring by their principals, will succeed to some extent in doing so. The longer the chain of command, the greater the distortion introduced by agent discretion. Viewed as a choice between markets and hierarchies, institutional choice in the case of commodities like arabica coffee becomes a problem of selecting the least distorting alternative.

Cooperatives, however, afford other possibilities. The necessary condition for attaining an effective degree of vertical integration is not hierarchy but collective action. Hierarchy is one way to obtain collective action, but it is not the only way. Collective action can also occur on the basis of reciprocity among the members of a community (Oakerson 1988). Moreover, it is also possible to introduce market-like relationships into the organization of a complex cooperative structure. Such market-like relationships limit the degree of hierarchy in organization, introducing some of the benefits of competition while retaining basic elements of collective action. This became the basis in PRAMS I for conceptualizing the reform of NWCA.

Instead of focusing on the creation of a simple market in arabica coffee, PRAMS I concentrated on the introduction of quasi-market relationships within the cooperative structure in the North West Province. The quasi-market design had several key features: (1) the absence of territorially defined purchase areas for marketing cooperatives; (2) free entry and exit to and from marketing cooperatives by individual farmers between marketing seasons; (3) the determination of producer prices separately by each marketing cooperative; (4) the production of services (mainly processing and export marketing) by cooperative unions and the NWCA federation at cost for their constituent members; (5) free entry and exit by marketing cooperatives (including the formation of new cooperatives) to and from area cooperative unions between marketing seasons; and (6) the ownership of a surplus generated from the sale of coffee on the world market by each marketing cooperative, not the NWCA as a whole.

The design was intended to create strong incentives to economize on production and management costs within the cooperative structure by linking the producer price that any cooperative could pay its farmers with the costs incurred by that cooperative and its area union. Farmers would be free to shift their membership based on their perception of performance. They would also be free to sell outside the NWCA cooperative structure, either to agents of other cooperatives or to private traders permitted to enter by the general liberalization of the arabica sector. Thus, the entire cooperative structure is constrained to perform at least as well as a simple market.

This market-like arrangement was introduced into the NWCA structure over a 4-year period, beginning in 1989-90, during which time short-term and long-term (2-year) technical assistance was made available to NWCA and, for a 2-year period, 11 Peace Crops volunteers were available to assist at the union and cooperative-society levels. The full story of this reform process is told in the PROMT report on *Restructuring NWCA*. The transition was not easy. External to the project, poor coffee prices on the world market and the economic crisis in general combined with political instability to create one delay after another. Within the project, initial misunderstandings between NWCA and USAID ripened into mutual suspicion and mistrust. Substantively, the main sticking point was the decentralization of producer pricing to the cooperative-society level, a move that also required the calculation of separate costs for each cooperative union. Inherited from the National Produce Marketing Board, the old system of uniform producer prices and the reimbursement of internal costs on an average per-kilo basis retained its grip on the mental image of cooperative officials as the proper way to run a cooperative. These difficulties were eventually resolved through continued dialogue about the merits of the reform program, but only at the price of delaying full implementation of the quasi-market design until the final year of PRAMS I, 1993-94, leaving little opportunity to correct defects in the system during the life of the project.

Given the recent implementation of the NWCA reform program, it is also somewhat premature to pronounce on its success or failure. However, the fact that the quasi-market design was fully implemented before the end of PRAMS I represents no small achievement. Moreover, its effects can begin to be observed. Significant price variation exists for the current season among the cooperative societies within NWCA, although the amount of variation differs from one area union to another. The anticipation of price variation induced most of the cooperative societies to reduce their costs substantially; this effect was felt much less, however, at the union level. The greatest price variation is found in the competitive advantage enjoyed by all NWCA cooperatives over their competitors. NWCA's average price offer of 519 FCFA/kg compares to initial price offers of 400 FCFA/kg by others, including the cooperative structure *Union Centrale des Coopératives Agricoles de l'Ouest* (UCCAO) located in neighboring West Province, which subsequently increased its price offer to 475 FCFA/kg.

Also of importance is the reconfiguration of the cooperative structure at the initiative of farmers. This process only recently got underway with the implementation of a new national cooperative law (discussed below). The number of marketing cooperatives has increased within a few months from 40 to 73 societies. Although this significantly reduces the average membership of a cooperative society, it has not, as noted above, increased costs. Only a single society, however, changed its union affiliation. The 11 unions, which operate 12 coffee mills for hulling and grading, exhibit significant excess capacity. If the pressure to maximize producer prices continues, this will lead to the restructuring of union production as well.

The longer-term challenge faced by the cooperative structure is quality control. As suggested above, the raison d'etre of cooperative organization of coffee marketing is its potential ability to satisfy the demand for high quality. PRAMS I stressed the importance of quality from the beginning of the project and introduced measures designed to sensitize farmers and cooperative officials to this issue. Arguably, the attention paid to quality accounts for the virtual elimination of the quality-discount to which NWCA coffee (now selling at close to the New York "C" price) was previously subjected. Perhaps more telling is the concerned reaction of cooperative officials to recent quality claims made by European buyers. The cooperatives are taking the issue of quality seriously and making plans for regular farmer education to maintain appropriate standards. Only a cooperative or contractor who has a continuing relationship with substantially the same group of farmers is able to take such actions to improve and sustain quality.

The basic problem that a cooperative must solve is to overcome the individual incentives of farmers to shirk on quality. This is a collective action problem in the classic sense (Olson 1965). Bates (1989: 76-77) notes that the split payment system typically used by cooperatives is insufficient to solve the problem because scale economies in processing and marketing require one farmer's produce to be mixed with others; he goes on to state the problem precisely:

> The result of scale economies...is that when producers receive a quality premium, it represents the market's evaluation of the *average* quality of production as generated by all farmers. The *individual* farmer is thus not rewarded for the quality of his or her production. Indeed, those who have expended the resources necessary to produce

above-average quality fail to secure compensation for their efforts; they get paid a price that reflects but the average. And those who have shirked in efforts to enhance the quality of their produce are rewarded; they too receive a price based on the average quality of output by all farmers. The result is the erosion of incentives to produce goods of high quality. (Bates 1989: 77)

If, however, the cooperative is collectively rewarded for quality, this creates a potential social demand for quality control within the community of farmers. While split payments are not sufficient to create the right incentives, local farmers can also employ face-to-face training and monitoring, as well as mutual accountability, to focus attention on potential shirkers and, as needed, bring social pressure to bear. Small, village-based cooperatives, such as those now re-emerging in the North West Province as a result of the new cooperative law, are well suited to this task because of the ongoing, face-to-face relationships that cooperative members are able to sustain with one another (See the PROMT report on *Restructuring NWCA*.

PRAMS I nicely illustrates the utility of a sectoral focus in privatization. Many proponents of market liberalization argue, in effect, that the creation of a market becomes a self-organizing process once certain initial conditions (e.g., currency, rules of contract and liability) have been met. Indeed, the development of "informal markets " seems to confirm this proposition even in the absence of key formal institutions. However, it can also be argued that this proposition applies most fully to *simple* markets, not to more complex arrangements that mix elements of collective action with elements of exchange. These mixed arrangements require the design of institutional arrangements that go beyond meeting minimal preconditions that apply across all sorts of commodities.

Another example of a sectoral focus in USAID/Cameroon's policy-reform portfolio was the FSSRP (see the PROMT report on *Crafting a Market*). The market for procurement of fertilizer is not a simple market either, due mainly to economies of scale in shipping. Importers must pool orders from numerous distributors, who pool order from more numerous consumers, in order to economize on shipping costs. This reduces the potential number of competitors. However, the total amount of fertilizer consumption in Cameroon does afford some significant scope for competition, at least potentially. This makes for a contestable, if not highly competitive, market, and it makes privatization feasible. It also places a premium on encouraging the entry of private importers in the early stages of market development, thus inhibiting the emergence of a single supplier. Sectoral analysis of this sort contributed to the design of the FSSRP as a privatization program explicitly designed to reduce uncertainty and facilitate market entry (Oakerson et al 1990: 19).

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III. CROSSCUTTING REFORMS

Sectoral reform can be viewed as dealing with the vertical relationships among economic actors within a "commodity slice" of the total economy. These vertical relationships are mediated by various institutional arrangements. Both FSSRP and PRAMS I were reform programs that facilitated and accelerated the process--partly trial-and-error--of working out these relationships and developing appropriate institutional infrastructure. At the same time, both programs, especially PRAMS I, depended on more general, crosscutting reforms, not limited to a single commodity slice of economic activity.

In addition to its concern with sectoral reform and analysis, PROMT was asked to investigate the relationship between sectoral and crosscutting reforms. The development of PRAMS I in conjunction with the reform of the national law on cooperatives demonstrates that the relationship between the two types of reform activity can be highly complementary. At the same time, PROMT's examination of other crosscutting reforms--those having to do with commercial, labor, and investment law--suggests that crosscutting reform may have difficulty standing alone.

Much of the effect now being observed from PRAMS I market liberalization is really the joint effect of market reform and cooperative-law reform. Each reform, however, contributes something quite different to the joint effect. Market liberalization allows for competition, and competition induces cost-reduction and structural change in an industry. Cooperative-law reform creates the organizational autonomy needed to respond to competition. Neither the legal reform alone nor market reform alone would induce the competitive response. Price competition has now emerged in the arabica-growing region including North West and West Provinces, and the cooperatives in West Province, all of which are affiliated with a cooperative union (UCCAO), are drawing on the new cooperative law to begin to restructure their relationships so as to increase their competitiveness (see the Research note on "Impacts of the New Cooperative Law" in the PROMT report on *Restructuring NWCA*). Similarly, inside the NWCA, the quasi-market design that was introduced by PRAMS I could not be fully functional without the new cooperative law, which removes institutional constraints on the entry and exit of individual farmers and their cooperative societies.

These relationships suggest that the impact of the new cooperative law would be considerably weaker in the context of local monopolies and fixed producer prices. Although PROMT did not investigate this proposition, there is ample opportunity to do so in Cameroon. Competition is the motive force behind structural change and cost reduction, while legal reform bearing on the organization of cooperatives provides the institutional capability to respond to competitive forces.

PROMT also studied crosscutting constraints and related reform efforts in relation to four types of economic transactions: investments, employment and labor, the formation of commercial enterprises, and business contracts (see the PROMT report on *Crosscutting Constraints and Policy Reform*). Cameroon's Structural Adjustment Program has included efforts to reform the laws affecting these types of economic transactions across all sectors of the economy. While new legislation has prescribed new operational rules, the legislation has retained the existing authority structure for invoking, applying, and enforcing these rules, as well as for prescribing additional rules beyond the requirements of the law itself (see the PROMT report on *Institutionalism and Policy Reform* for a discussion of the analysis of authority structures). For the most part, the existing authority structure is one that depends heavily on administrative discretion, generating uncertainty as to what the "rules in use" (E. Ostrom 1992) may turn out to be. Despite legislated reforms, PROMT researchers report little economic response in the form of increased investments, employment, or business formation.

In contrast, the new cooperative law, just recently implemented in 1993-94, is already associated with changes in the way that cooperatives in the arabica sector do business and, in the North West Province, is associated with fundamental changes in the structure of the NWCA. One way in which the cooperative-law reform differed from changes in the investment code and the labor code, for example, was that the reform of the cooperative law included a major change in the authority structure, as well as in the operational rules governing cooperatives. The former Department of Cooperation and Mutuality (COOP/MUT), which exercised supervision over cooperative affairs, was abolished and replaced by a registration service that is a fraction of the size of its predecessor and that has fewer opportunities to use discretion. Although some administrative discretion remains, and although some of the same personnel have been rehired to operate the registration service, the situation is much different than it would be were the same department still responsible for application of the new law. Similarly, the liberalization of the arabica market was accompanied by the liquidation of the National Produce Marketing Board--a structural change that affected relationships in a number of agricultural sectors in addition to the arabica coffee sector. If the application (and interpretation) of the new market rules were in the hands of the former regulators of the arabica sector, the reformed system would be much less secure than it seems to be at present.

Two propositions emerge from these observations. *First*, a change in operational rules can be relatively ineffective without a change in the underlying authority structure that limits administrative discretion and reduces the cost of authoritative transactions concerned with invoking, applying, and enforcing general rules. Simply prescribing new operational rules, often the principal focus of policy reform associated with the World Bank's structural adjustment lending, can be insufficient to induce real change. *Second*, sector-based reforms aimed at liberalization and privatization increase the economic motivation to use legal reforms to economic advantage. By simultaneously reducing the cost of authoritative transactions based on general rules of law and increasing their potential benefit to economic actors,

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crosscutting and sectoral reforms are mutually reinforcing. The payoff from crosscutting reform is most fully realized in those sectors where market forces have been introduced, motivating economic actors to take advantage of new legal capabilities.

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IV. MODELING THE POLICY REFORM PROCESS

A central focus of PROMT research has been the nature of the reform process and how it works. PROMT's report, of *Organizational Approaches to Policy Reform,* relates that donor agencies make use of sophisticated macroeconomic models to diagnose economic weaknesses and chart the goals of structural adjustment and economic liberalization. Economists understand tolerably well how healthy economies work and, in a technical sense, how to make sick economies work better. The result of macroeconomic analysis is a set of objectives that become the intended outcomes of policy reform. Donors and lenders enter into bilateral agreements with developing countries in which the recipient government agrees to specific conditionalities in order to obtain assistance. These conditionalities, once met, are expected to lead to the intended outcomes. Missing in the design of policy reform programs, however, is a persuasive model of policy reform as a process. Reformers posit objectives and select conditionalities, but they do so without modeling the process that leads from an initial policy intervention to expected outcomes. In the absence of a good model of policy reform, the designers of reform programs have little analytic basis for selecting particular conditionalities or for anticipating obstacles that may lie in the path of reform.

PROMT studied the path of reform in five cases: PRAMS I, cooperative-law reform, 2 fertilizer sub-sector programs, and World-Bank sponsored public enterprise reforms. The Cameroon experience is interesting, in part, for the innovative approach to reform being pursued by USAID/Cameroon. Instead of simply introducing a reform measure and then monitoring the outcome--events that occur at the two ends of a reform path--USAID sought to monitor events along the entire path. The agency also was prepared to intervene at unforeseen points along the path to make mid-course adjustments and corrections as needed. Three PROMT reports (*Paths of Reform,* which deals with PRAMS I and cooperative-law reforms, *Crafting a Market,* which describes and analyzes the FSSRP, and *Pitfalls of Privatization,* which examines the CEC's fertilizer reform program in norther Cameroon) are focused mainly on the path-dependent characteristics of policy reform programs.

A reform path consists of a series of discretionary decisions, each of which reacts to preceding decisions. Policy reform is presumed to be path-dependent in the sense that later choices depend on earlier choices. Each choice forecloses future options as it opens others up. To the extent that strategic actors with imperfect information and important stakes have real discretion at various points along the path, the twists and turns that reform may take, and the pitfalls it may encounter, cannot be completely foreseen. A good model of policy reform would provide less a road map than a compass, less a trail-guide than a field-guide on how to make one's way through uncharted territory. Although it was not the purpose of this research to produce such a model, PROMT was changed to learn more about the path of reform as a step in that direction.

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PRAMS I policy reforms in the arabica sector and the crosscutting cooperative-law reform were intimately related; they are examined together in the PROMT report *Paths of Reform.* Figure 1, based on this report, shows both reform paths and how they were related to each other and to other reform efforts.

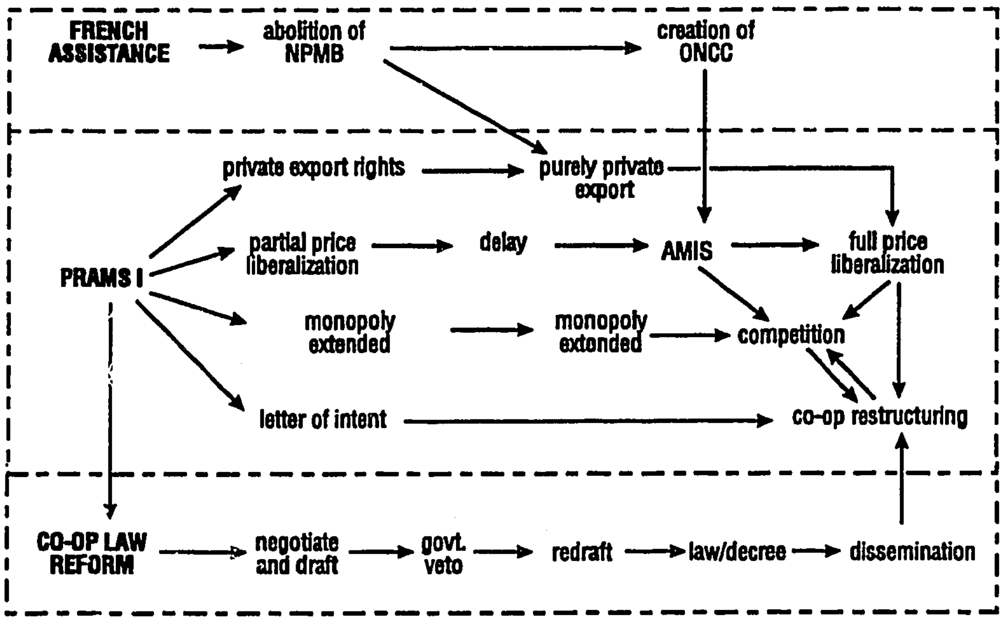

Figure 1: Paths of Reform Leading to Full Market Liberalization in the Arabica Sector

Figure 1 shows three main paths and, within one path, four sub-paths. Each of the main paths is associated with a different policy reform program. The French assistance program in Cameroon, *Caisse Française de Coopération Economique* (CCCE)[2], assisted the GRC with the restructuring of the cocoa and robusta export sectors in a manner consistent with the Structural Adjustment Program. This program proceeded largely independent of PRAMS I but was carefully monitored by USAID. PRAMS I took the form of a grant agreement (actually two agreements, one for the policy reform program and another for project assistance) between USAID and the GRC. Cooperative-law reform was a joint donor effort together with the GRC, one closely tied to the World Bank's SAL-I conditionalities but often sponsored by USAID and including the active participation of the CEC, GTZ (German Technical Assistance Agency), and the French.

The central program of interest is PRAMS I, for this is the program that explicitly aimed at full market liberalization in the arabica sector. The program followed four sub-paths along the way to this objective:

[2] The CCCE is now called the *Caisse Française de Développement* (CFD).

- One was the extension of export rights to private exporters in addition to the National Produce Marketing Board (NPMB). With the demise of the NPMB (discussed below), exports rights became exclusively private.

- Another path led from the initial extension of monopoly-buying privileges for both NWCA (in North West Province) and UCCAO (in West Province) to the withdrawal of monopoly status from these organizations and the introduction of competition, both between the two cooperative structures and with private traders.

- The central path of reform for PRAMS I began with partial price liberalization. At this point, the GRC withdrew from the unilateral determination of a uniform producer price to be paid for arabica and agreed to a process of consultation with the arabica exporters (UCCAO, NWCA, and COOPAGRO, the latter a small group of private arabica plantations) that was intended to permit the price to reflect both world market conditions and internal costs. Instead of the government fixing a price for buyers, the buyers would jointly determine a price in consultation with the government. This was to be no more than a step along the path to full price liberalization, a step required to provide assurances that the interests of farmers were being taken into account during the process of privatization. However, when in the following year USAID sought an announcement of full price liberalization from the government, what followed was a series of contradictory statements that resulted basically in an extension of the first procedure. What was intended as a transition step threatened to become government-led price collusion among the major buyers. The immediate result was a one-year delay in the reform program, the minimum length of the delay determined by the length of one coffee-marketing season.

  From the discussions between USAID and the GRC that ensued it was learned that a key obstacle on this sub-path of reform was the desire of GRC officials to be able to assure that farmers understood and could profit from a liberalized market system. Distrust of market forces as an instrument for protecting the interests of small-scale agricultural producers, in this case, or consumers, in other cases, is a pervasive attitude in much of Africa. In response to this expressed concern, USAID proposed the Arabica Market Information System (AMIS), a government-run program intended to be sure that farmers obtained reliable information from both the world and domestic local coffee markets (Tollens 1993). This program enabled the GRC to go ahead with full price liberalization with the confidence that farmers were armed with information that would allow them to protect their own interests and make informed market decisions.

- As a "commodity slice" reform program, PRAMS I was interested in vertical relationships between the various stages of production from farm to world market. In particular, this would require the capability to restructure relationships among marketing cooperatives and their members. This capability depended on cooperative-law reform, a crosscutting reform effort. USAID was therefore keenly interested in

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pushing the cooperative-reform movement along. In the interim, it sought and obtained a "letter of intent" from the GRC that allowed PRAMS I to proceed with restructuring activities in the North West Province, although some restructuring activities, such as rewriting articles of association and forming new cooperatives, would have to await the new cooperative law.

The CCCE program, which proceeded largely along a parallel path (and did not aim at full price liberalization), nevertheless reinforced PRAMS I at two points. First, PRAMS I did not require the abolition of the NPMB, which participated in more than the arabica sector. The CCCE program, however, focused on NPMB and resulted in its liquidation. This meant that there would be no public enterprise with export rights in the arabica sector; henceforth, all export rights would be held by private actors. In the place of NPMB, the CCCE program led to the creation of the *Office National du Cacao et du Café* (ONCC) to manage public aspects of the export process in both the arabica and robusta sectors, though its duties were much broader in the robusta sector. When PRAMS I later generated AMIS, it had to have a home, which was conveniently provided by ONCC.

The cooperative-law reform effort also followed a parallel path that reinforced PRAMS I. A joint donor effort, it involved as much time and effort devoted to coordination and negotiation among donors as between donors and the GRC. The first product of the joint effort was rejected by the GRC in the Prime Minister's office, sending the negotiators and their principal consultant back to the drawing board. The result was a division of the rules governing cooperatives between a law, which would be passed by the National Assembly, and a decree to be issued by the President. Once these steps were taken, USAID supported a national dissemination campaign, taking the law and decree to the people affected. As discussed in the previous section of this report, the new law not only changed the operational rules affecting cooperatives but also scrapped the former government agency responsible for overseeing cooperatives, thus putting in place a new authority structure to apply and enforce the provisions of the new law.

At the conclusion of PRAMS I, all these paths of reform have converged to produce competition in the arabica sector. The CCCE reform program contributed to this result through the abolition of NPMB, its replacement by ONCC, and ONCC administration of AMIS, the implementation of which was critical to achieving the final objective. Cooperative-law reform contributed the more liberal rules governing cooperatives that allow them to respond to competition. Within PRAMS I, the privatization of export, the elimination of monopoly privileges, and full price liberalization all contributed to competition, which is motivating the economic restructuring now permitted by cooperative-law reform.

The case studies of FSSRP and PSIE, both fertilizer sub-sector reforms, tell a somewhat different story. FSSRP was successful in liberalizing and privatizing its sub-sector (see the PROMT report on *Crafting a Market*), but the CEC's PSIE reform program in northern Cameroon was in effect captured by a large parastatal organization, SODECOTON (*Société de Développement de Coton*), which used the program to advance its own agenda (see the PROMT report on *Pitfalls of Privatization*). Donor coordination failed to overcome these problems, leading to a somewhat bifurcated fertilizer market in Cameroon, one characterized by competitive market forces and the other subject to an administered system.

World Bank efforts to assist with the reform of public enterprises in Cameroon have also been frustrated (see the PROMT report on *SAL-I Implementation*). Public enterprises were divided into three categories: (1) those to be liquidated, (2) those to be divested, and (3) those to be rehabilitated and retained. All three efforts have moved slowly, and they remain largely unfulfilled. Liquidation has been beset with administrative difficulties owing in part to incentives that are incompatible with the objective. Divestiture has also, with a single exception, been stalled. Rehabilitation has proved difficult to implement, despite intensive monitoring and oversight on the part of World Bank staff. The key difference between public enterprise rehabilitation and the paths of reform related to PRAMS I was the explicit linkage in the later between the restructuring of economic organizations (e.g., the NWCA) and liberalization of the markets in which they operate. In the absence of changes in the structure of the market, public enterprises continue to face the same incentives as before. Rehabilitation programs that are not incentive-compatible face insuperable obstacles.

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V. CONCLUSIONS

The study of the Cameroon experience suggests a number of tentative generalizations concerning the nature of policy reform:

- The success of market liberalization depends, not only on changes in the general legal framework governing economic activity, but also on the development of appropriate institutional infrastructure within particular economic sectors. The appropriate infrastructure varies with the characteristics of goods or commodities. This underscores the importance of a sectoral focus when designing a program of assistance to policy reform. The PRAMS I cooperative restructuring component in the North West Province is a prime example of the use of institutional analysis and design to anticipate infrastructural needs within a sector and supply appropriate assistance. The FSSRP also facilitated the development of appropriate institutional infrastructure for importing and distributing fertilizer.

- Sectoral or "commodity slice" reforms and cross-cutting legal reforms work in complementary ways. Because the absence or weakness of one greatly reduces the impact of the other, sectoral and cross-cutting reforms should be designed to complement one another. Cross-cutting legal reforms, such as many of the changes in national law associated with the Structural Adjustment Program, have only a limited impact in the absence of sectoral reforms that address the specific problems of how to build an appropriate institutional infrastructure. By the same token, sectoral reforms, such as the restructuring of arabica marketing cooperatives in the North West Province, depend on cross-cutting legal reforms--in this example, a new national cooperative law.

- Successful host-country reform can depend on the convergence of different reform paths assisted by various donors. The elements that contribute to a successful outcome (as intended) then are linked to diverse donor efforts. This requires donor negotiation, coordination, and mutual adaptation, as well as close cooperation between donors and the host country. The paths of policy reform associated with PRAMS I illustrate this proposition well.

- Successful rule changes may often depend on modifications in the immediately underlying authority structure. This is because one of the basic problems with market rules in developing countries is uncertainty with respect to the actual rules in use. New rule-prescriptions do not reduce the uncertainty of economic actors without an assurance of change in the assignment of authority for invoking, applying, and enforcing the new rules. Sometimes, changes at these two different levels involve movement along parallel paths of reform.

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- The "final" configuration of institutions that lies down the path of reform may not have been formed inside anyone's head prior to the reform process; instead, institutional arrangements emerge from interactions among numerous donors, host-government agencies, and private actors. Institutional design is important in this process, but its importance is not to arrive at an institutional blueprint in advance but rather to address problems iteratively as the process moves along. Institutional design contributes to the reform process not just at the beginning but along the entire path.

- Many of the obstacles that appear along the path of reform cannot be precisely known in advance. However, experience with reform, *if that experience is monitored on a case-by-case basis and the case studies are periodically integrated into an accessible body of knowledge*, can help the participants in a reform program anticipate the types of obstacles that can arise and how to deal with them.

- Several types of obstacles emerged in the course of PRAMS I and its related reform efforts. These include (1) problems with understanding the logic of a different institutional arrangement (encountered both with the GRC and the NWCA), (2) stakeholder resistance, which contributes to the reluctance of officials to press ahead with reform (again encountered both inside the GRC and NWCA), and (3) unforeseen interactions between different reform paths, some of which can be fortuitous but others of which can be potentially damaging (see the discussion of interactions between arabica reform and cocoa-robusta reforms in the PROMT report on *Paths of Reform*).

- For each type of obstacle PROMT uncovered both successful and unsuccessful responses. Problems with understanding the logic of reform respond to continued dialogue. Stakeholder resistance responds to donor insistence on the key conditionalities to which the host-government or agency has agreed. Unforeseen interactions between paths require close monitoring of parallel paths of reform. All depend on donor and host-country willingness to rethink the projected path of reform, make adjustments, and intervene to redirect the process at unforeseen points along the way.

- Assisting policy reform, when the process involves the careful monitoring of reform along the entire length of several paths of reform, is highly labor-intensive. Both PRAMS I and the FSSRP required full-time program coordinators who worked directly for USAID/Cameroon. Policy reform also became the major preoccupation of the Mission Economist, who headed the mission's Office of Economic Analysis and Policy Reform Implementation (EAPRI) with a total contingent of 6 professional staff members. In addition, policy reform absorbed much of the time and energy of the mission's Project Design and Evaluation Officer and often directly involved the director and deputy director. Moreover, a number of short-term consultants were used on a continuing basis to review and assess progress along the various paths of reform.

Cameroon's recent experience demonstrates that it is feasible, contrary to the record of policy reform in much of Africa, to introduce market reforms of a very liberal sort in an African context. Although a judgment on the sustainability of these same policy reforms awaits further experience, the success shown to date can have a significant demonstration effect both within and outside the country, strengthened by the accompanying program of research. However, the research also indicates that Cameroon's successes were tied to a demanding and multifaceted approach to policy reform that included the following components: institutional analysis and design on an iterative basis, the complementary design of sectoral and cross-cutting reforms, high levels of donor coordination, the intensive oversight of reform along multiple paths, and high levels of staff support. These are the important but complex lessons that Cameroon brings to the practice of policy reform in the developing world.

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